

Message Text

LIMITED OFFICIAL USE

PAGE 01 ATHENS 11920 01 OF 02 081757Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 AGRE-00 ITC-01 SAM-01 /087 W

----- 015955

R 081701Z NOV 76

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC 7765

INFO AMEMBASSY ANKARA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL THESSALONIKI

LIMITED OFFICIAL USE SECTION 1 OF 2 ATHENS 11920

EO 11652: NA

TAGS: ECON ECIN EFIN EALR GR

SUBJECT: THE GREEK ECONOMY: GROWTH TREND CONSOLIDATES

REF: A. ATHENS 9007;

B. ATHENS 10553;

C. BRUSSELS 10340;

D. ATHENS 10749.

SUMMARY: THE GREEK ECONOMY, AS IT MOVES ALONG A PATH OF MODERATE GROWTH, APPEARS TO BE PERFORMING SATISFACTORILY, PARTICULARLY WHEN COMPARED WITH SOME OTHER WESTERN EUROPEAN COUNTRIES. DEMAND FOR CONSUMER NON-DURABLES, EXPORTS, AND CONSTRUCTION MATERIALS IS STRENGTHENING, ALTHOUGH PRODUCTIVE INVESTMENT IS STILL LAGGING. OUTPUT OF MANUFACTURED GOODS CONTINUES TO RISE, AND 1976 LOOKS LIKE ANOTHER GOOD YEAR FOR AGRICULTURAL PRODUCTION. EVEN THE TWO MAJOR TROUBLE SPOTS OF THE PAST THREE YEARS, INFLATION AND THE BALANCE OF PAYMENTS, SHOW IMPROVEMENT. THE CONSUME
R

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ATHENS 11920 01 OF 02 081757Z

PRICE INDEX ROSE BY 8.3 PC BETWEEN JAN AND OCT, AND THE PRE-

DICTED 11-12 PC FOR THE YEAR APPEARS ATTAINABLE. EXPORTS, IMPORTS, AND THE TRADE DEFICIT ALL SHOWED IDENTICAL SIX PERCENT INCREASES IN THE FIRST NINE MONTHS OF THE YEAR (COMPARED WITH 1975), BUT A 26 PC INCREASE IN TOURIST EARNINGS BOOSTED INVISIBLES SO THAT THE CURRENT ACCOUNT DEFICIT DROPPED BY THREE PERCENT. MOREOVER, HEALTHY INFLOWS OF LONG TERM FOREIGN EXCHANGE DEPOSITS FROM EMIGRANTS AND THE SHIPPING SECTOR ON THE CAPITAL ACCOUNT SHOULD KEEP THE NEED FOR OFFICIAL BORROWING TO AROUND \$400 MILLION FOR THE YEAR (\$632 MILLION IN 75). PRELIMINARY GOVT STATEMENTS INDICATE THAT NEXT YEAR'S STATE BUDGET WILL AGAIN BE MILDLY STIMULATIVE. THE REGULAR BUDGET WILL BE 200 BILLION DRACHMAS (A 17 PC INCREASE) AND THE 45 BILLION DRACHMA INVESTMENT BUDGET (UP 10PC) WILL BE ALMOST ENTIRELY DEFICIT-FINANCED. SOME PROGRESS HAS BEEN MADE IN TACKLING ORGANIZATIONAL AND TECHNICAL ISSUES SURROUNDING GREECE'S EARLY FULL MEMBERSHIP TO THE EC, BUT NO DATE HAS YET BEEN SET FOR SUBSTANTIVE NEGOTIATIONS TO BEGIN. END SUMMARY.

1. AGGREGATE DEMAND: MOST RECENT INDICATORS SHOW AGGREGATE DEMAND STRENGTHENING SOMEWHAT. FOR THE FIRST EIGHT MONTHS, THERE WAS SLIGHTLY MORE THAN A 2PERCENT INCREASE IN THE VOLUME INDEX OF RETAIL SALES. ON THE INVESTMENT SIDE, THE CONSTRUCTION SECTOR IS STILL THE PRIMARY SOURCE OF ACTIVE DEMAND. CONSTRUCTION PERMITS ISSUED DURING THE FIRST EIGHT MONTHS WERE 9.4PC HIGHER THAN IN THE SAME PERIOD OF 75. DOMESTIC PRODUCTION OF CAPITAL GOODS HAS BEEN GROWING STEADILY IN THE LAST MONTHS, INDICATING THAT THE RECOVERY MAY FINALLY BE STIMULATING PRIVATE INVESTMENT AS IDLE PRODUCTIVE CAPACITY IS GRADUALLY ELIMINATED. ANOTHER SIGN IS THAT THE HELLENIC INDUSTRIAL DEVELOPMENT BANK HAS INCREASED ITS LENDING BY 2 1/2 TIMES, TO APPROX. \$100 MILLION. NEVERTHELESS, GOVERNMENT SOURCES HAVE TOLD US PRIVATELY THAT PRODUCTIVE INVESTMENT IS STILL A SOURCE OF CONCERN. EXPORT DEMAND HAS BEEN STRONG, PARTICULARLY FOR TEXTILES AND CEMENT, AND DURING THE FIRST NINE MONTHS THE DRACHMA VALUE OF TOTAL EXPORTS INCREASED BY ABOUT 30 PERCENT.

2. AGGREGATE SUPPLY: DEVELOPMENTS IN THE SUPPLY SIDE HAVE BEEN MORE POSITIVE. THE INDUSTRIAL PRODUCTION INDEX FOR JAN-JULY ROSE BY 7.3 PC VIS-A-VIS THE SAME PERIOD IN 75. MANUFACTURING, WHICH HAS THE LARGEST WEIGHT IN THE INDEX, WAS UP 7.2 PC, LED BY TEXTILES, FOODSTUFFS, TOBACCO, METAL PRODUCTS, AND NON-METALLIC MINERALS (MAINLY CEMENT). THE LATTER TWO CATEGORIES HAVE BEEN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ATHENS 11920 01 OF 02 081757Z

STIMULATED BY THE INCREASED CONSTRUCTION ACTIVITY AND BY EXPORTS.

3. AGRICULTURE, RESPONDING TO GENERALLY FAVORABLE WEATHER CONDITIONS, CONTINUES TO ENJOY GOOD HARVESTS, PRODUCTION OF WHEAT, BARLEY, CORN, AND MEAT IS EXPECTED TO INCREASE, AND BOTH COTTON AND SUGAR YIELDS SHOULD BE EVEN GREATER THAN THEIR VERY SATISFACTORY 75 LEVELS. IN FACT, GREECE BECAME A SUGAR EXPORTER FOR THE FIRST TIME THIS YEAR. PRODUCTION OF FRESH AND DRIED FRUITS HAS ALSO INCREASED. THE

VOLUME OF PEACH EXPORTS THIS YEAR (96,000 TONS) WAS SATIS-
FACTORY BUT CONSIDERABLY LESS THAN THE ABNORMALLY HIGH (179,000
TONS) 1975 LEVEL.

4. PRICES: DURING THE FIRST TEN MONTHS OF 1976, THE CONSUMER
PRICE INDEX (CPI) ROSE 8.3 PC (OR 11.5 PC FROM OCTOBER 75
TO OCT 76). THE WHOLESALE PRICE INDEX (WPI) FOR
THE FIRST NINE MONTHS WAS 9.1 PERCENT. AS THERE IS NORMALLY A
SEASONAL UPSWING IN THE CPI TOWARDS THE END OF THE YEAR, AND
AS THE SHARP WPI INCREASE DURING THE FIRST HALF OF 1976 MAY ALSO
IMPACT ON THE FOURTH QUARTER CPI, THE REVISED GOG FORECAST OF AN
11-12 PERCENT 1976 INFLATION RATE APPEARS REASONABLE. THE ABATEMENT
IN THE RATE OF PRICE INCREASES (FROM 15.7 PC IN 1975) SHOULD
HELP GOG EFFORTS TO STIMULATE PRODUCTIVE INVESTMENT AND TO
HOLD DOWN WAGE INCREASES.

5. BALANCE OF PAYMENTS: PRELIMINARY BALANCE OF PAYMENTS FIGURES
FROM JAN THROUGH SEP 1976, REVEAL A SIX PERCENT INCREASE
IN BOTH IMPORTS AND EXPORTS, WHICH DURING THE FIRST PART OF THE
YEAR DID NOT REGISTER THE ORIGINALLY EXPECTED GROWTH (AT LEAST IN
DOLLAR TERMS). THE TRADE DEFICIT ALSO ROSE BY SIX PERCENT, TO A RECO
RD
\$2.4 BILLION, BUT THE CURRENT ACCOUNT DEFICIT, AT \$757 MILLION,
WAS THREE PERCENT LOWER THAN LAST YEAR BECAUSE OF HIGHER INVISIBLE
ACCOUNT RECEIPTS, PRIMARILY FROM TOURISM; TOURIST EARNINGS JUMPED
26 PC TO \$624 MILLION AND MAY WELL REACH AN ALL-TIME HIGH OF
\$800 MILLION BY YEAR END. ON THE CAPITAL ACCOUNT, LONG TERM
FOREIGN EXCHANGE DEPOSITS BY GREEK EMIGRANTS AND THE SHIPPING
SECTOR CONTINUED TO SWELL, AND ALMOST DOUBLED FROM LAST YEARS LEVEL;
AT \$421 OF MILLION THIS IS NOW THE LARGEST SINGLE INFLOW ON THE
CAPITAL ACCOUNT. THERE WAS SOME INCREASE IN BANK OF GREECE
BORROWING DURING THE MONTH OF SEPT, AS FINANCING NEEDS FOR THE YEAR
BECAME CLEARER. GROSS OFFICIAL BORROWING WILL PROBABLY BE CLOSE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 ATHENS 11920 01 OF 02 081757Z

TO \$400 MILLION BY THE END OF 1976. THE NET CHANGE IN SUPPLIERS
CREDITS, AT \$10 MILLION, REMAINED LOW. BY MID-OCTOBER, OFFICIAL
RESERVES HAD RISEN TO \$924 MILLION, SLIGHTLY MORE THAN TWO MONTHS
IMPORT REQUIREMENTS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ATHENS 11920 02 OF 02 081848Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 ITC-01 AGRE-00 SAM-01 /087 W

----- 016483

R 081701Z NOV 76

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC 7766

INFO AMEMBASSY ANKARA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL THESSALONIKI

LIMITED OFFICIAL USE SECTION 2 OF 2 ATHENS 11920

6. RECENT LOANS CONTRACTED: SEVERAL MAJOR NEW LOANS HAVE BEEN ANNOUNCED RECENTLY ON FAVORABLE TERMS TO GREECE, REFLECTING BOTH LIQUIDITY IN INTERNATIONAL CAPITAL MARKETS AND GREECE'S GOOD CREDIT RATING. A) THE FIRST BOSTON CORPORATION PRIVATE PLACEMENT LOAN TO THE BANK OF GREECE (REF B, PARA 3) WAS OFFICIALLY ANNOUNCED IN PRESS REPORTS TO BE \$125 MILLION. B) THE NATIONAL BANK OF GREECE RECENTLY CONTRACTED A DM 300 MILLION EUROLOAN IN THE LONDON MARKET WITH A BANKING CONSORTIUM LED BY THE GERMAN BANK FUER GEMEINWIRTSCHAFT A.G., FOR FIVE YEARS AT - 5/8 PC ABOVE THE THREE OR SIX MONTH LIBOR (LONDON INTER-BANK OFFERED RATE). THE LOAN WILL BE USED TO FINANCE PRIVATE INVESTMENT. C) PUBLIC POWER CORP (PPC) CONTRACTED THREE LOANS IN OCTOBER, NONE OF WHICH IS GUARANTEED BY THE GOG OR BANK OF GREECE. A \$75 MILLION LOAN FROM A CONSORTIUM HEADED BY BANKERS TRUST INTL. LTD. (REF B) WILL COVER PART OF FOREIGN EXCHANGE EXPENDITURES FOR THE 1976 INVENTMENT PROGRAM. TWO LOANS OF 18.2 MILLION SWISS FRANCS (FROM A CONSORTIUM OF SWISS BANKS) WILL FINANCE 75 AND 80 PC RESPECTIVELY, OF MINING EQUIPMENT FOR A THERMOELECTRIC PLANT. D) NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT (NIBID) PLANS TO FLOAT A LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ATHENS 11920 02 OF 02 081848Z

6-7 YEAR \$30 MILLION BOND ISSUE IN THE EURODOLLAR MARKET, WHICH WILL BE PLACED BY NIBID'S FOREIGN BANK SHAREHOLDERS. THE MONEY WILL BE RELOANED TO INDUSTRIAL ENTERPRISES TO FINANCE IMPORTS OF CAPITAL GOODS. E) THE IBRD HAS GRANTED GREECE A \$30 MILLION LOAN TO FINANCE IMPROVEMENT OF PROCESSING AND MARKETING FRUITS AND VEGETABLES.

F) A NEW \$30 MILLION COMMODITY CREDIT CORPORATION LOAN WILL FINANCE CORN IMPORTS IN FY77.

7. THE DRACHMA PARITY: SINCE THE DRACHMA WAS DISENGAGED FROM THE DOLLAR IN MARCH 1975, AND LINKED TO A BASKET OF EUROPEAN CURRENCIES, THE DOLLAR-DRACHMA PARITY HAS SLOWLY DRIFTED DOWNWARDS. BY THE END OF OCTOBER, WHEN THE PARITY WAS \$1 EQUALS 37.2 DRACHMAS, THE TOTAL DE FACTO DEVALUATION VIS-A-VIS THE DOLLAR WAS 24 PERCENT. BY COMPARISON, THE TOTAL DEVALUATION IN THE SAME PERIOD VIS-A-VIS GREECE'S MAJOR TRADING PARTNERS CURRENCY, THE DM, WAS 18.4 PC. DURING OCTOBER THERE WAS A 1.6 PC DEVALUATION AGAINST THE DM, REFLECTING ITS REVALUATION IN THE EUROPEAN JOINT FLOAT.

8. MONETARY AND CREDIT DEVELOPMENTS: AFTER THE SUMMER'S AEGEAN TENSIONS WERE WEATHERED, A RETURN OF PRIVATE SECTOR CONFIDENCE WAS REFLECTED IN A SHARP DROP IN CURRENCY IN CIRCULATION AND AN INCREASE IN PRIVATE BANK DEPOSITS. NEVERTHELESS, IT WILL BE DIFFICULT TO LIMIT THE 1976 INCREASE IN CURRENCY IN CIRCULATION TO THE 12 PC TARGET, AS EVEN WITH THE DROP IN SEP AND OCT, IT HAD ALREADY RISEN ABOUT TWELVE PC BY MID-OCT. SIMILARLY, THE TARGETED EXPANSION RATE OF 18 PC FOR BANK CREDIT MAY WELL BE EXCEEDED, SINCE THERE WAS ALREADY A 13 PC INCREASE BY THE END OF JULY. ANOTHER DEVELOPMENT IN THE MONETARY SECTOR WAS A 1/2 PC DECREASE IN INTEREST RATES ON DRACHMA BANK DEPOSITS. LARGE INCREASES IN DEPOSITS RELATIVE TO EXPANSION OF BANK LOANS WERE ERODING BANK PROFITS, AND THIS TOGETHER WITH THE LOWER INFLATION RATE APPARENTLY PROMPTED THE REDUCTION IN THE GOVERNMENT-SET INTEREST RATES.

9. GOVERNMENT BUDGET: SOME DETAILS ARE NOW AVAILABLE ON THE 1977 BUDGET, WHICH SHOULD BE RELEASED BY NOV 28. THE REGULAR BUDGET WILL TOTAL 200 BILLION DRACHMAS, A 17 PC INCREASE OVER LAST YEARS, WHILE THE INVESTMENT BUDGET WILL BE 45 BILLION DRACHMAS, UP BY 10 PERCENT. SINCE THE LATTER IS DEFICIT FINANCED, THERE WILL AGAIN BE A MILDLY STIMULATIVE IMPACT ON THE ECONOMY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ATHENS 11920 02 OF 02 081848Z

ACCORDING TO PRESS REPORTS TAXES WILL BE RAISED ON DIVIDENDS. IN ADDITION, IN ANOTHER ATTEMPT TO TAX PRIVATE SECTOR GAINS FROM INFLATION, THERE WILL BE AN OBLIGATORY RE-EVALUATION OF CORPORATE FIXED ASSETS, AND THE INCREASED VALUE WILL BE CAPITALIZED AND TAXED AT HIGHER RATES. NO FIGURE HAS YET BEEN RELEASED FOR DEFENSE EXPENDITURES, WHICH SHOULD AGAIN BE SIGNIFICANT (LAST YEAR 23 PC OF THE TOTAL BUDGET.)

10. RELATIONS WITH THE EC: ON OCTOBER 18-19 COORDINATION MINISTER PAPALIGOURAS MET WITH THE EC COUNCIL OF MINISTERS IN LUXEMBOURG. AS NOTED IN REF C, THIS MEETING WAS MAINLY PRO FORMA AND RESULTED IN NO SUBSTANTIVE DECISIONS. ALTHOUGH VAN DER STOEL REPORTEDLY SAID

SUBSTANTIVE NEGOTIATIONS WOULD BEGIN BEFORE THE END OF THE YEAR, THE COUNCIL DID NOT AGREE TO A DATE IN NOVEMBER AS THE GREEKS HAD REQUESTED. ACCORDING TO THE EC COMMISSION REPRESENTATIVE HERE, THE EC IS STILL UNCERTAIN AS TO THE RELATIONSHIP BETWEEN NEGOTIATIONS WITH GREECE AND POTENTIAL MEMBERSHIP NEGOTIATIONS WITH SPAIN AND PORTUGAL, AND THIS ISSUE MUST BE CLARIFIED SOON. HE ALSO TOLD US THAT DURING THE OCTOBER MEETING THE GREEKS ASKED TO BE CONSULTED ON AND TO PARTICIPATE IN COMMUNITY DECISIONS EVEN DURING THE NEGOTIATING PERIOD ON ISSUES OF INTEREST TO GREECE (FOR EXAMPLE HARMONIZATION OF INDUSTRIAL STANDARDS OR REVISION OF THE CAP) BUT THE COUNCIL AGREED ONLY "TO KEEP THEM INFORMED".
KUBISCH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, ECONOMIC REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ATHENS11920
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760416-0372
From: ATHENS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761172/aaaackgo.tel
Line Count: 289
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ATHENS 9007, 76 ATHENS 10553, 76 BRUSSELS 10340, 76 ATHENS 10749
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 07 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 APR 2004 by KelleyW0>; APPROVED <07 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE GREEK ECONOMY: GROWTH TREND CONSOLIDATES
TAGS: ECON, ECIN, EFIN, EALR, GR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006